

Message Text

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ACTION EB-07

INFO OCT-01 AF-10 ISO-00 SP-02 USIA-06 AID-05 NSC-05
EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 AGRE-00 INT-05 /084 W
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R 251400Z MAY 77

FM AMEMBASSY KINSHASA

TO SECSTATE WASHDC 3769

C O N F I D E N T I A L SECTION 1 OF 2 KINSHASA 4937

C O R R E C T E D C O P Y (TEXT PARA 2)

E.O. 11652: GDS

TAGS: ECON, EFIN, CG

SUBJECT: ZAIRIAN STABILIZATION PROGRAM - FIRST QUARTER COMPLIANCE

REF: A. KINSHASA 4067 B. LUBUMBASHI 328 C. KINSHASA 4892

1. SUMMARY: BASED ON THE DOCUMENT PROVIDED THE IMF BY THE BANK OF ZAIRE, ZAIRIAN COMPLIANCE WITH ITS BUDGET GOALS AND THE IMF STABILIZATION PLAN WOULD APPEAR TO BE GOING WELL. HOWEVER, A CLOSER LOOK AT HOW THE TARGETS ARE BEING MET WOULD SEEM TO INDICATE NO FUNDAMENTAL CHANGES IN THE GOZ ATTITUDE TOWARD BUDGETARY RESTRAINT AND FISCAL RESPONSIBILITY HAVE TAKEN PLACE. WHILE CREDIT AND FOREIGN EXCHANGE EXPENDITURE LIMITS ARE BEING OBSERVED, ARREARAGES HAVE SHARPLY INCREASED AND PAYMENTS ON THE PUBLIC DEBT ARE FAR BELOW THE BUDGETED LEVEL. IT APPEARS UNLIKELY THAT THE GOZ CAN BRING ITSELF INTO COMPLIANCE WITH THE ARREARAGE GUIDELINE WITHOUT EXCEEDING THE CREDIT CEILINGS; AND THERE IS CURRENTLY NO INDICATION THAT THE GOZ WILL EVEN ATTEMPT TO MEET THE ARREARAGE CRITERION, PERHAPS IN HOPE OF FURTHER DEBT RELIEF AT THE PARIS CLUB MEETING.
END SUMMARY.

2. EMBASSY HAS RECEIVED ON A CONFIDENTIAL BASIS A COPY OF THE
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FOLLOWING COMPLIANCE REPORT PROVIDED THE IMF BY THE BANK OF ZAIRE
FOR THE FIRST QUARTER OF 1977:

INFORMATION GIVEN TO THE IMF FOR THE FIRST QUARTER 1977
(IN MILLIONS OF ZAIRES)

JANUARY FEBRUARY MARCH

1. NET CREDIT OF THE BANK OF ZAIRE 753,953 786,593 780,771
TO THE GOZ

2. PRIVATE BANK CREDIT TO THE GOZ	84,449	79,668	80,494
3. BANKING SYSTEM CREDIT TO ENTER- PRISES AND INDIVIDUALS			
	393,930	408,020	421,171
4. TREASURY RECEIPTS	48,649	53,654	65,794
5. TREASURY DISBURSEMENTS	49,629	81,371	67,344
6. GROSS FOREIGN EXCHANGE HOLDINGS OF THE BANK OF ZAIRE	46,808	45,626	40,263
7. FOREIGN EXCHANGE LIABILITIES OF THE GOZ (INCLUDING IMF CREDITS)	197,046	197,306	192,297
8. EXPORT RECEIPTS	55,574	58,951	N/A
9. GECAMINES GROSS EXPORT RECEIPTS	51,983	52,949	60,161
10. IMPORT PAYMENTS (FOB)	37,246	53,409	N/A
11. COPPER EXPORT VOLUME (TONS)	33,869	31,819	35,800
12. PRIVATE BANK EXPORT CREDITS, PAYABLE UPON EMBARKATION OF GOODS	242,545	244,250	247,105
13. ARREARAGES	420,567	376,660	454,173
14. GOZ FOREIGN EXCHANGE EXPENDI- TURES	5,995	6,365	8,593
15. TREASURY PUBLIC DEBT SERVICE PAYMENTS	2,322	7,691	2,849
16. PRIVATE BANK FOREIGN EXCHANGE HOLDINGS	106,996	123,810	120,430
17. PRIVATE BANK FOREIGN EXCHANGE LIABILITIES	50,038	84,369	82,736

3. THESE FIGURES CORRESPOND TO THE BUDGET TARGETS SET UP BY THE GOZ IN ITS LETTER OF INTENT TO THE IMF AS WELL AS TO FOUR OF THE FIVE SPECIFIC CRITERIA SET UP BY THE IMF AS CONDITIONS OF THE CONFIDENTIAL

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STANDBY. THE CORRESPONDENCE WITH THE IMF CRITERIA IS AS FOLLOWS:

- A) TOTAL OUTSTANDING DOMESTIC CREDIT (ITEMS 1/2/3) IS NOT TO EXCEED Z1,359 MILLION AS OF 6/30/77 AND Z1,509 MILLION AS OF 12/31/77. IT STOOD AT Z1,282 MILLION AS OF 3/30/77.
- B) NET BANKING SYSTEM CREDIT TO THE GOZ (ITEMS 1/2) IS NOT TO EXCEED Z914 MILLION AS OF 6/30 AND Z994 MILLION AS OF 12/31. IT STOOD AT Z861 MILLION AS OF 3/30.
- C) EXTERNAL PAYMENTS ARREARAGES (ITEM 13) ARE TO BE REDUCED FROM THE 12/31/76 LEVEL OF Z365 MILLION TO Z308 MILLION BY 6/30 AND Z288 MILLION BY 9/30, WITH THE END OF THE YEAR LEVEL TO BE ESTABLISHED BY THE GOZ AND THE IMF IN SEPTEMBER. THE END OF MARCH ARREARAGES WERE Z454 MILLION.
- D) GOVERNMENT FOREIGN EXCHANGE EXPENDITURES ARE TO BE LIMITED TO Z44 MILLION FOR THE FIRST HALF OF 1977 AND Z87 MILLION FOR THE ENTIRE YEAR. EXPENDITURES, NOT INCLUDING DEBT SERVICE, WERE Z21 MILLION AT THE END OF MARCH.

4. EXPORT PERFORMANCE WAS NOT UP TO EXPECTATIONS IN THE FIRST QUARTER, WITH COPPER EXPORTS TOTALING ONLY 101,000 TONS. THIS

RATE OF EXPORT WOULD IMPLY AN ANNUAL TOTAL OF ONLY 404,000 TONS AS AGAINST ANTICIPATED EXPORTS OF 450,000 TONS. DEPENDING ON WHETHER OR NOT EXPORTS CAN BE INCREASED TO COVER AT LEAST SOME OF THE SHORTFALL, THIS WOULD IMPLY A LOSS OF BETWEEN \$18.75 AND \$75 MILLION IN FOREIGN EXCHANGE. (THIS DOES NOT NECESSARILY CONTRADICT CONSULATE LUBUMBASHI'S REPORT THAT GECAMINES PRODUCTION --AS OPPOSED TO EXPORTS--IS CONTINUING MORE OR LESS AT THE TARGETED LEVEL. IT MAY BE THAT STOCKS OF FINISHED COPPER ARE BUILDING UP DUE TO TRANSPORT PROBLEMS CITED REF B).

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ACTION EB-07

INFO OCT-01 AF-10 ISO-00 AID-05 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
SP-02 LAB-04 EPG-02 SIL-01 OMB-01 NSC-05 SS-15
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-----251703Z 039546 /46

R 251400Z MAY 77
FM AMEMBASSY KINSHASA
TO SECSTATE WASHDC 3770

C O N F I D E N T I A L SECTION 2 OF 2 KINSHASA 4937

5. COMMENT: ON FIRST READING THE FIGURES WOULD SEEM TO INDICATE THAT ZAIRES IS DOING RELATIVELY WELL. CREDIT CEILINGS ARE BEING OBSERVED AND GOVERNMENT FOREIGN EXCHANGE EXPENDITURES HAVE BEEN HELD TO A MODERATE LEVEL. HOWEVER, A LOOK AT THE ARREARAGE PICTURE SHOWS SOME FUNDAMENTAL PROBLEMS. ARREARAGES INCREASED DRAMATICALLY IN THE FIRST THREE MONTHS OF 77, ESPECIALLY BETWEEN FEBRUARY AND MARCH. THERE IS SOME SPECULATION THAT THE Z77.5 MILLION CHANGE OVER THE LAST MONTH WAS IN PART DUE TO THE BANK OF ZAIRE'S TAKING A HARD LOOK AT ARREARAGE CALCULATION, THE DATA FOR WHICH IS PROVIDED THEM BY THE PRIVATE BANKS, AND DISCOVERING THAT THE TOTAL HAD PREVIOUSLY BEEN UNDERSTATED. IF THIS IS A PARTIAL CAUSE THEN THE ARREARAGE TARGETS SET BY THE IMF MAY WELL HAVE TO BE REVISED EVEN BEFORE SEPTEMBER. HOWEVER, IT IS UNLIKELY THAT REVISED CALCULATIONS CAN ACCOUNT FOR ALL OF THE Z90 MILLION NET RISE OVER THE THREE MONTH PERIOD. IT WOULD APPEAR THAT THE CREDIT AND EXPENDITURE GUIDELINES HAVE BEEN MAINTAINED BY SIMPLE NON-PAYMENT OF BILLS. OF THE Z289 MILLION BUDGETED FOR SERVICE ON THE PUBLIC DEBT IN 1977, ONLY Z13 MILLION HAD BEEN DISBURSED BY THE END OF MARCH. AS WAS NOTED REFTEL A, THE GOZ HAS FAILED TO MAKE SEVERAL MAJOR DEBT SERVICE PAYMENTS DURING THE FIRST QUARTER OF

1977. WHILE THIS MAY BE AN INTENTIONAL PRELUDE TO THEIR REQUEST FOR FURTHER DEBT RESCHEDULING AT THE PARIS CLUB MEETING IT IS ALSO INDICATIVE OF A BASIC LACK OF CHANGE IN THE ZAIRIAN ATTITUDE TOWARD BUDGETARY RESTRAINTS. GIVEN THE STRINGENT RESTRICTIONS
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ON THE DEVELOPMENT BUDGET, THE FACT THAT ARREARAGES HAVE GROWN AND THAT SPENDING IS STILL SO CLOSE TO TARGET LEVELS WOULD SEEM TO IMPLY THAT EXPENDITURES FOR SALARIES, TRAVEL, AND MATERIEL HAVE CONTINUED TO GROW AT OR NEAR LAST YEAR'S LEVEL, WITH NO CHANGE IN SPENDING PATTERNS OTHER THAN NOT PAYING FOREIGN DEBT. THERE IS ALSO SOME QUESTION AS TO WHETHER THE INITIAL COSTS OF THE SHABA WAR WERE INCLUDED IN THE REPORT TO THE IMF. IN THE ABSENCE OF OPEC OR OTHER AID TO COVER THESE COSTS, THE WAR IS LIKELY TO HAVE AN EFFECT ON GOZ ABILITY TO MEET THE JUNE COMPLIANCE TARGETS. WHILE THE SECOND QUARTER WILL BE THE FIRST FULL QUARTER THAT THE GOZ WILL HAVE TO LIVE WITH THE IMF CRITERIA, THE TRENDS THAT APPEARED DURING THE FIRST THREE MONTHS WOULD SEEM TO INDICATE THAT THINGS WILL NOT GO SMOOTHLY. THE GOZ MAY ATTEMPT TO BRING ITSELF INTO LINE WITH THE ARREARAGE CRITERION; BUT UNLESS ADDITIONAL DEBT RESCHEDULING TAKES PLACE AT THE MEETING OF THE PARIS CLUB, IT IS DIFFICULT TO SEE HOW THIS COULD BE DONE WITHOUT EXCEEDING BOTH THE CREDIT AND FOREIGN EXCHANGE LIMITS FOR THE FIRST SIX MONTHS. FINALLY, WE NOTE THAT APRIL BUDGET DATA REPORTED REF C FURTHER SUPPORT OUR CONTENTION THAT THERE IS TROUBLE AHEAD.
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